



**Austin/Travis County Health and Human Services Department
Early Childhood Council**



November 29, 2010

Chairperson

Aletha Huston

Vice-Chairperson

Kyle Holder

Members

Albert Black
Sue Carpenter
Larry Elsner
Anna Lisa Fahrenthold
Rhonda Paver
Jacquie Porter
Cindy Rojas Rodriguez
Natasha Rosofsky
Margie Sanford
Debra Keith-Thompson
Avis Wallace

Early Childhood
Council
City of Austin HHSD
P. O. Box 1088
Austin, Texas 78767

(512) 972-5028

Mayor Leffingwell
Mayor Pro Tem Martinez
City Council Members
Austin, Texas

Dear Mayor, Mayor Pro Tem and Council Members:

The Early Childhood Council recommends that the City Council endorse the ***10 Steps to Reforming the Child Care Subsidy System*** developed by the Texas Early Childhood Education Coalition's (TECEC) Child Care Subsidies Work Group. The TECEC document is attached. The ECC further recommends that the City's endorsement of these Steps include making them part of the City's legislative agenda for the 82nd Session.

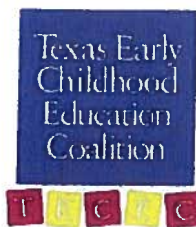
The 10 Steps document offers remedies for problems that reduce both access to and quality of care for children of low-income working parents who are trying to become self-sufficient. Reimbursement rates should be raised because they are lower than market rates, making it difficult for parents to obtain quality care. The period for receiving subsidies after job loss or leaving welfare should be extended to allow children to receive stable care while parents search for employment. Performance targets for Workforce offices should facilitate staff efforts to promote quality, and eligibility requirements should be adjusted for parents with chronic or severe illnesses. The 10 Steps addresses issues that have plagued the Texas child care subsidy system since its redesign in the early 1990's. Implementation of these recommendations will help to improve the quality of subsidized child care services provided in Austin/Travis County for both children and their families.

Thank you for your continued support and understanding of the importance of the early childhood years. I and other members of the Early Childhood Council would welcome an opportunity to discuss these issues with you.

Sincerely yours,

Aletha C. Huston
Chair

xc: Bert Lumberras, Assistant City Manager
David Lurie, HHSD Director
Vince Cobalis, HHSD Human Services Assistant Director



The Child Care Subsidies Work Group A project of the Texas Early Childhood Education Coalition

10 Steps to Reforming the Child Care Subsidy System

The Texas Early Childhood Education Coalition (TECEC) created the Child Care Subsidies Work Group (CCSWG) in September of 2009 to bring together experts from all across the state to address the urgent need for reform in the Texas child care subsidy system.

The child care subsidy system

The child care subsidy system refers to Texas' statewide child care assistance program, which provides low-income working families with affordable child care options. In Texas, 28 Local Workforce Development Boards (LWDB) govern the subsidy system regionally, though these Boards must follow directives and measures set by the Texas Workforce Commission (TWC). Funding for the child care subsidy system comes from a combination of federal, state, and local dollars, with federal dollars accounting for a significant majority. The TWC allocates the funds, totaling \$503 million each biennium, among the 28 different regional LWDBs so that they may purchase subsidized child care slots in centers, homes, and in family-relative care. Providers that participate in the system agree to care for the children of low-income working families at a discounted rate. Providers participate knowing they will be reimbursed by the state. Families access the system by selecting a provider from a list of approved providers at their local workforce development agency.

The current child care subsidy system in Texas presents a significant barrier to high-quality early education for many children in our state. Though we are serving roughly 110,000 children a year, many eligible families are currently on waiting lists to receive child care assistance. Providers are reimbursed for their service at far too low a rate, inhibiting their ability to care for low-income children in high-quality settings. The LWDBs charged with administering the program are under intense pressure from the TWC to meet performance targets for number of children served per day. High, inflexible targets lead to lower investments in quality and perennially insufficient levels of reimbursement for providers.

A chance for reform

Under the leadership of Chairman Mark Strama, the Technology, Economic Development, & Workforce Committee in the Texas House of Representatives spent much of 2010 studying child care in Texas under the following Interim Charge:

"Review ways in which communities can meet increasing demand for child-care services while preparing children to succeed in school, including the implementation of the Texas Workforce Commission's Child Care and Development Fund Plan for Texas."

The interim charge facilitated a tremendous amount of dialogue on the subject statewide; however, it comes at a period of severe state revenue shortfalls. Thus, while a key need for the subsidized child care system is increased state funding, **the Child Care Subsidies Work Group is committed to revenue neutral policy recommendations for the Technology, Economic Development & Workforce Committee** that will improve the child care subsidy system without placing additional demands on the Texas budget. This paper briefly describes the greatest challenges found in the child care subsidy system in Texas and offers ten revenue neutral policy recommendations for how to improve the system in 2011.

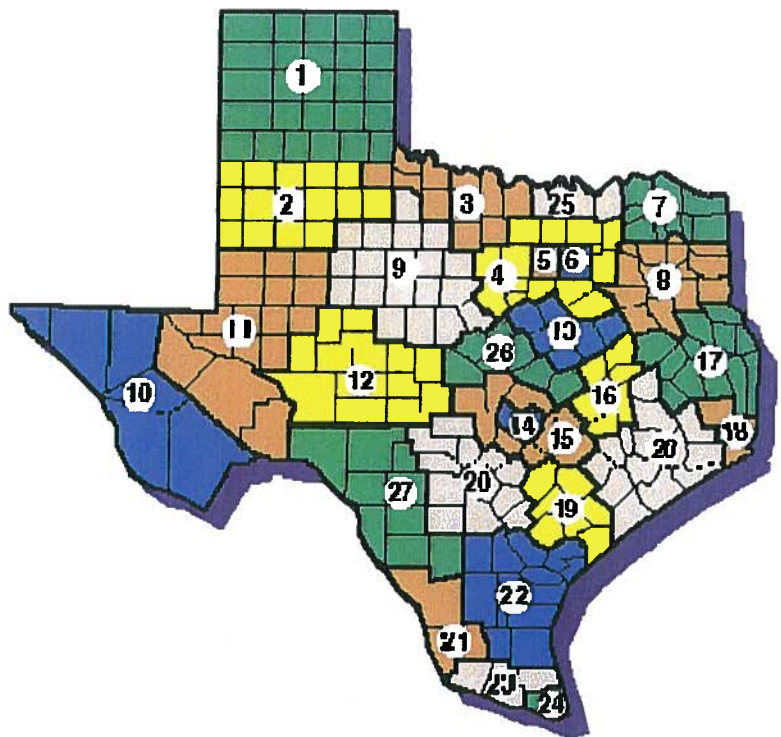
10 Steps to Reforming the Child Care Subsidy System

The Problem:

Rates are too low

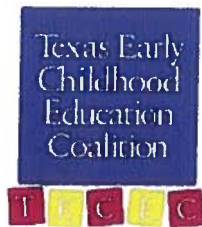
Due to the high demand for child care assistance and limited funding, the level at which child care providers are reimbursed is too low. This has a significant impact on the stability of the system and on the quality of the care our most at-risk children receive. In order to ensure that low income families have high-quality options when selecting child care, the federal government recommends that the state reimburse providers at the 75th percentile of market rate. However, of the 28 LWDBs, none are meeting this recommendation. In fact, in some areas, the reimbursement rate is less than half of the federally recommended rate.

Each year the TWC conducts The Child Care Market Rate Survey which allows the agency to determine the 75th percentile of the market rate for each Local Workforce Development Area. This survey is required by the rules of the Child Care Development Block Grant. The survey is administered by the Ray Marshall Center and the University of Texas School of Social Work. The survey is high-quality, and its lead researchers have been recognized at the national level for their expertise and technique. Despite the quality, utility, and expense of the data collected through the market rate survey, it has no practical role in the setting of reimbursement rates.



Map of Texas' 28 Local Workforce Development Boards

Rather than utilize data produced by the survey to set reimbursement rates for providers, the TWC forces LWDBs to set their rates in response to their performance target (the number of children that must be served per day). Essentially, by giving each LWDB a fixed allocation and a fixed number of children that must be served per day, the TWC keeps reimbursement rates perennially low and woefully behind the true market value of that service.



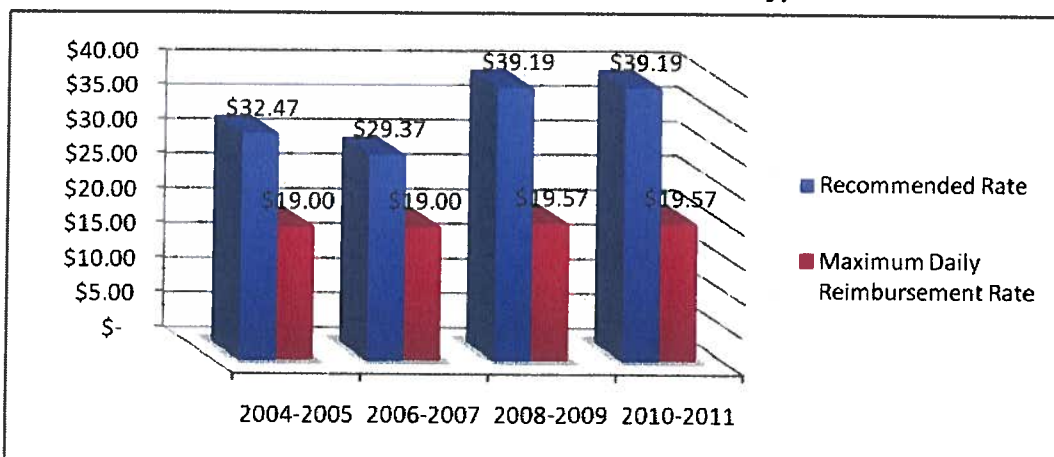
The Child Care Subsidies Work Group
A project of the Texas Early Childhood Education Coalition

10 Steps to Reforming the Child Care Subsidy System

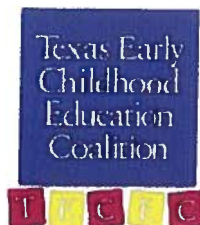
The relationship between subsidy rates and the availability of subsidized child care is complicated. Given a finite overall allocation for subsidized child care in Texas, a higher subsidy rate leads to fewer child care slots the state can purchase. However, from an economic perspective, there is a theoretical low point that subsidies can reach that will essentially discourage the majority of quality providers from participating in the program. Many providers and advocates fear that we have already reached that point or are getting dangerously close to it. This worry has intensified in the last few years. During the years 2004-2009 the state minimum wage has risen 41%, while the average maximum reimbursement rate statewide has only risen 5.75% during the same period. The cost of providing care has risen dramatically, while the reimbursement rate has remained relatively flat.

More and more child care owners and directors interested in providing high-quality care find it impossible to serve subsidized children. Given the low levels of reimbursement, it makes bad business sense to serve subsidized children.

**LWDB 28 – Gulf Coast: Reimbursement Rates vs Recommended Rates
 (Center-based Preschool- Full day)**



The Gulf Coast LWDB serves more children than any other region in Texas. Between 2004 and 2010 the maximum rate of reimbursement that can be paid to center-based providers increased just \$.57 while the market increased \$6.72. Additionally, a \$19.62 gap exists between the level of reimbursement the Federal Government recommends and the current level in the Gulf Coast region.



10 Steps to Reforming the Child Care Subsidy System

Performance targets inhibit quality

Rather than the Child Care Market Rate Survey driving reimbursement rates, rates are influenced strongly by the child care performance targets the TWC sets for each LWDB. Essentially, performance targets determine the number of children that must be served per day in the area. Often that number is so high that any desire to increase rates locally or to incentivize quality is rendered impossible. Unfortunately, child care in Texas is often viewed through the lens of quantity above all else. Little emphasis is placed on the quality, safety, or stability of the system. The priority is the number of children served.

As mentioned above, 28 LWDBs govern the child care subsidy system regionally, but these LWDBs must follow directives and measures set by the TWC. Additionally, beyond broad funding decisions, the legislature has little control over the system or how LWDBs spend their child care dollars. Currently, the TWC has ultimate authority over the entire subsidized child care system.

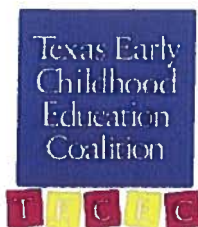
In theory, the TWC allows LWDBs the local authority to set reimbursement rates and to make decisions regarding quality investments; however, in reality, those decisions are heavily constrained by the TWC's annual performance target requirements for each LWDB. These targets are intended to ensure that the LWDBs serve a designated number of children per day without exceeding the local yearly allocation of funds. The demand for subsidized child care continues to go up, and the TWC continues to expect higher numbers of children served, but the local allocation to the LWDBs stays flat. As a result, LWDBs maintain low reimbursement rates, cut non-direct administration costs, and decrease program costs annually, in order to meet the TWC performance target. Thus, local decisions regarding investing in quality, paying adequate reimbursements to providers, and how to manage the local child care program are subordinated to the performance target that the TWC sets.

The Current TWC Performance Target Formula for LWDBs

Amount Available for Direct Care
(Total Local Allocation - Admin Costs)

Avg. Maximum Direct Cost
(Based on LWDBs previous rates and case mixes)

of Days in the Contract Period
(Generally around 260)



The Child Care Subsidies Work Group
A project of the Texas Early Childhood Education Coalition

10 Steps to Reforming the Child Care Subsidy System

The system could serve families better

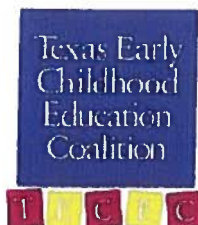
In 2003, the TWC pointed out that among the indirect benefits of Texas child care is an economic output of \$816 million a year, a substantial amount for any industry. Yet child care providers and the families that utilize subsidized child care are often subjected to a system that seems to have little understanding of the ever-changing realities they face daily.

From the perspective of families, it seems as if they can lose their care for any reason. Many of the timeframes required of families are unrealistic, such as four weeks to find re-employment before losing care. Additionally, some TWC eligibility policies punish families for problems outside of their control. For example, consider this scenario:

A single working mother has two young children in subsidized child care. She works 40 hours a week. Her children are thriving in the center-based care the subsidy system allows her to access. However, she begins to feel ill. She visits a doctor who tells her she has breast cancer and must undergo radiation and chemotherapy, and that she will certainly not be able to work during this period. Upon informing her local workforce development entity about this situation, the child care for her children will be terminated. Now she must find a way to care for her illness, while caring for her children during the day. During this stressful family time, her children will lose the stability and bonds they have made in their local child care center. If they do not enter a new high-quality learning environment, her children will likely fall behind their peers as a result of this experience.

The child care director and the representative from the LWDB know all of this, but their hands are tied. The LWDB is not allowed to pay the center for caring for the young mother's children while she is unemployed, and the center cannot afford to care for them for free.

This is one of the worst scenarios parents, directors, and LWDBs deal with, but there are many changes that could be made to the system that would make it more beneficial to everyone involved. The starting point when considering how to manage the child care subsidy system should be the care of the young children it serves. Every reasonable effort should be made to preserve the continuity of care for young children because disrupting care at such a young age has detrimental effects on their healthy development.



The Child Care Subsidies Work Group
A project of the Texas Early Childhood Education Coalition

10 Steps to Reforming the Child Care Subsidy System

Solutions:

TECEC's Child Care Subsidy Work Group thoroughly investigated how to reform the child care subsidy system from multiple perspectives through revenue neutral strategies. Workgroup participants represent diverse perspectives including faith-based child care, for-profit child care, non-profit child care, quality advocates, child care resource and referral agencies, local United Ways, Local Workforce Development Boards, child care contracting organizations, and community leaders. Membership was also derived from all corners of Texas in order to include the varying community perspectives on the issue. The Work Group met monthly for a year and produced the following recommendations:

1

For the care of children ages 36 months to 13 years, the rate of reimbursement for child care providers participating in the child care subsidy system should be at least as high as 70% of the Mean market rate, as indicated by the most recent Texas Workforce Commission's Child Care Market Rate Survey.

Though 70% of the Mean is well below the federal recommendation, this increase would establish a connection between reimbursement rates and the market. Providers would be assured that when changes in the market occur, their rates of reimbursement would respond in kind. In some areas, this level of reimbursement would provide a much needed increase in reimbursement immediately.

2

For the care of infants and toddlers (6 weeks to 35 months), the rate of reimbursement for child care providers participating in the child care subsidy system should be at least as high as 75% of the Mean market rate, as indicated by the most recent Texas Workforce Commission's Child Care Market Rate Survey.

Infant and toddler care is the most expensive care for a provider to offer and also the most difficult care for families to find in their communities. A higher rate of reimbursement that responds to the market will encourage more providers to offer infant and toddler care.

10 Steps to Reforming the Child Care Subsidy System

3

The enhanced rate paid to providers for participating in quality enhancing programs (National Accreditation, Texas Rising Star, and/or Texas School Ready!) should be set at least 10% higher than the local base rate of reimbursement.

Currently LWDBs can incentivize quality enhancing efforts by offering an enhanced reimbursement rate of 5% above the base rate, locally. Participation in both Texas Rising Star and National Accreditation is on the decline in Texas, leading to fewer high-quality options for families. Incentivizing quality with a 10% rate increase will encourage many more high-quality providers to enroll subsidized children and will also encourage current participants in the subsidy system to strive to increase quality in order to attain the enhanced rate.

4

For the purposes of determining Local Workforce Development Board performance, each subsidized child enrolled in quality enhancing programs should be counted as 1.1 performance unit.

Just as providers need incentives to increase quality, LWDBs need the assurance that investing in quality child care will not impact their ability to meet performance targets. Since enrolling children in higher quality programs costs an LWDB more than standard care, currently there is a built in disincentive to enroll children in higher quality programs. Weighting children in enhanced rate programs at 1.1 allows LWDBs to meet performance targets while not sacrificing quality to do so.

5

For the purposes of determining Local Workforce Development Board performance, TWC should set aside an amount for administrations and operations equal to the average of the last four years and calculate the target for affordable number of children served as follows:

- 1. Begin with local allocations and subtract the expected administrations and operations budget**
- 2. Determine the higher of the two: (1) local most current 12 month average reimbursement rates or (2) 75% of the Mean market rate for infant and toddler care and 70% of the Mean market rate for all other types in each LWDB**
- 3. #1 divided by the number of days of care divided by #2 will be the number of affordable children per day for each LWDB**

The most critical issue facing the child care subsidy system in Texas is the effect TWC performance targets have on LWDBs' ability to prioritize quality and raise reimbursement rates. This new formula will hold LWDBs accountable for how funds are spent, while taking into account the fluctuations in the child care market that require equitable increases in the rates paid to providers for participating in the system.

10 Steps to Reforming the Child Care Subsidy System

6

Extend enrolled child eligibility to 90 days before terminating care due to unemployment.

Currently, eligible parents are granted four weeks within a fiscal year to search for and secure new employment while their child is receiving subsidized child care services. Four weeks is a very small window in which to seek employment, attend interviews, and start a new job. The possibility of finding new employment will only be further hampered by having to secure child care throughout the job search process. Additionally, the effects of disrupting early learning can have detrimental effects on the healthy development of young children.

7

Extend transitional care to 18 months from the effective date of TANF denial.

Currently, transitional care is available for a period of up to 12 months from the effective date of TANF denial. Transitional care is intended to support families that have made significant progress in attaining self sufficiency. Extending transitional care will encourage more families to seek higher wages and job training.

8

Extend transitional care for TANF recipients who are not employed when TANF expires to 90 days.

Currently these TANF recipients are granted four weeks of transitional care. Four weeks is a very small window in which to seek employment, attend interviews, and start a new job. The possibility of finding new employment will only be further hampered by having to secure child care throughout the job search process. Additionally, the effects of disrupting early learning can have detrimental effects on the healthy development of young children.

9

Allow for reduced work hour requirements for eligible parents that have chronic or severe illnesses.

LWDBs currently allow for reductions in work hour requirements if a parent's documented disability or a family member's disability prevents them from working. This concept should be extended to families directly impacted by chronic or severe illness.

10

Allow for household unreimbursed medical expenses for a disabled family member to be deducted from the household income when determining eligibility.

Currently, LWDBs deduct the cost of a child's ongoing medical expenses from the family income when determining eligibility. This concept should be extended to the entire immediate family or household, as the expense of dealing with a disability in the family impacts the family budget whether the child or another member has the disability.